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# Weekly Review

**Top Secret**

21 June 1974

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The WEEKLY REVIEW, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.

## CONTENTS (June 21, 1974)



### 1 In the Wake of Disengagement

#### EUROPE

- 4 Portugal: Spinola's Problems
- 5 Belgium: A More Stable Government
- 6 USSR: Elections; Foreign Policy
- 8 Soviet Military Developments
- 9 Italy: Rumor Gets a Reprieve
- 10 Austria: The Presidential Stakes
- 10 Eastern Europe: Grain Outlook

#### EAST ASIA PACIFIC

25X1

- 13 China:   Graffiti
- 15 South Vietnam: Fighting Slackens
- 15 Laos: Non-Communist Stirrings
- 17 Cambodia: Changing the Guard Again
- 17 Thailand: Labor on the Move

25X1

#### WESTERN HEMISPHERE

25X1

- 19 Colombia: New Guerrilla Woes
- 19 Panama-US: Canal Negotiations
- 20 Argentina: Peron's Troubles

#### MIDDLE EAST AFRICA

- 22 North Yemen: Military Take-over
- 23 Cyprus: Makarios' Difficulties

#### INTERNATIONAL

- 24 OPEC: Postponing Decisions

25X1

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# In The Wake of Disengagement

Disengagement of Syrian and Israeli forces continued on schedule this week on the Golan Heights. In a brief ceremony on June 18, the Israelis handed over to UN observer forces a 180-square-mile swath of territory. The area was turned over to the Syrians the following day. Israeli forces have now withdrawn from all but a three-mile-wide strip of the land they captured during the October war. They are expected to withdraw to within one mile of the 1967 cease-fire line by this weekend, and to complete their redeployment by June 26. Kuwait and Morocco announced that their forces, at Syria's request, will soon begin to return home. The Saudi contingent is also expected to leave Syria before long.

## SYRIA

Once disengagement is completed, President Asad reportedly will make changes in the cabinet, the Baath Party hierarchy, and the Syrian military establishment, allegedly in preparation for allowing greater economic and political freedom. 25X1

Asad is considering forming a national union government, which he would invite exiled Syrian politicians to join after declaring a general political amnesty. He will certainly proceed cautiously if he moves in this direction at all. Asad seems more likely to take a different route, tightening his control over the party and the army by weeding out recalcitrants 25X1



Israelis turn first parcel of land over to UN control

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who still oppose his efforts to negotiate with Israel.

## EGYPT

With President Nixon's visit now past, President Sadat has turned to more difficult diplomatic tasks. Algerian President Boumediene's stopover last weekend marked the start of the round of bilateral consultations with Arab leaders that Sadat promised as a prelude to reopening the Geneva conference. Sadat has also called for a broad four-way "summit" with Syria, Jordan, and the Palestinians to coordinate positions, and there are rumors of a separate mini-summit among Egypt, Syria, Algeria, and Saudi Arabia. A full Arab summit is now set for Rabat in early September.

Recognizing the difficulties of working out a common Arab strategy, Egyptian officials anticipate that the peace conference will not convene until after the Arab leaders' meeting in September. Between now and then, Sadat will try to satisfy the conflicting demands of Jordan and the Palestinians. Although most of the work to accomplish this will be behind the scenes, he has made it clear in public that he expects compromises from both sides. Sadat has told the Palestinians that, no matter how much they may dislike the prospect, they must coordinate their position with Jordan. As a further nod to Jordan's interests, the Egyptians have also dropped all open reference to the Palestine Liberation Organization's status as the sole legitimate representative of the Palestinians.

## ISRAEL

Israeli aircraft attacked fedayeen positions in southern Lebanon several times this week. The raids—the first since the signing of the Syrian-Israeli disengagement agreement—were apparently a delayed response to the terrorist attack on June 13 on the Israeli settlement of Shamir. The Israeli retaliation was delayed until President Nixon left the Middle East. Casualties and damage from the air strikes were less heavy than those that followed the incident at Maalot last month. They should



not be an impediment to further progress in Middle East peace negotiations.

Many Israelis, meanwhile, are increasingly concerned that the improving Arab-US ties may be at Israel's expense. Prime Minister Rabin reflected this anxiety in a speech on the eve of President Nixon's visit to Israel, saying that differences of opinion with Washington are quite possible as Arab-US relations warm.

Israel's press and public opinion have been particularly exercised over the US-Egyptian agreement to negotiate a pact on nuclear cooperation for peaceful purposes. Early this week the opposition in parliament submitted a no-confidence motion—its first against the new Rabin government—over the cabinet's low-key reaction to the announcement of the agreement. The government survived, however, by a vote of 60 to 50. Rabin took the Knesset rostrum twice to emphasize that he had expressed his anxieties over the accord to President Nixon and was seeking reassurance from independent experts on the promised safeguards to prevent military use of the nuclear technology. At the same time, he warned his critics against "spreading panic" over a technological development that could perhaps be delayed but not

prevented. Government spokesmen stressed the continuing US commitment to provide Israel with large-scale military and economic assistance.

#### MOSCOW ON THE PRESIDENT'S TRIP

The Soviet press played down the President's trip, and, not surprisingly, emphasized the continuing importance of the Soviet Union in the region. Moscow was particularly sensitive to speculation in the Western press that renewed US-Arab cooperation would result in the decline of Soviet influence.

*Pravda*, for example, asserted on June 16 that the success of Soviet-Arab cooperation had produced the change in the Middle East climate responsible for the improvement in US-Arab rela-

tions. It condemned the "cold-war" advocates in the West for trying to portray the President's trip as a campaign to undercut Soviet-Arab ties. The US was portrayed as a Johnny-come-lately, whose basic interests are still at variance with Arab goals.

Meanwhile, Soviet journalists have begun circulating rumors of an impending renewal of Soviet-Israeli diplomatic relations. It is doubtful, however, that Moscow and Tel Aviv are ready to take such a step at this time. The Israeli foreign minister said on June 19 that relations with Moscow are as bad as they have ever been since 1967. One purpose of the Soviet leaks, therefore, may be to tell the Arabs that if their new relationship with the US goes too far, Moscow can also seek new friends.

#### MONEY: NO AGREEMENT ON REFORM

No major agreements on international monetary reform or on the recycling of oil funds were reached at last week's financial meetings. These included sessions of the International Monetary Fund's Committee of Twenty, the Group of Ten (major financial powers), and the Bank for International Settlements. Participants again pledged not to pursue beggar-thy-neighbor policies in dealing with the impact of higher oil prices, but they failed to develop arrangements that would allow each consuming country to finance its higher oil import bill for a sufficient time to permit smooth adjustment.

The Committee of Twenty failed to develop an outline for basic international monetary reform. Uncertainties arising from sharply increased oil prices precluded agreement, despite nearly two years of negotiations. The committee merely adopted a number of interim reform measures that will not substantially alter existing practices. New guidelines for the management of floating exchange rates are so general, for example, that members will continue to be free to pursue their own currency intervention goals. Moreover, a new IMF lending facility does not

command sufficient funds to bail out countries with oil-related payments problems.

The Group of Ten agreed to allow gold to be used as collateral at negotiated prices in official borrowings. This measure will not significantly increase the borrowing capability of developing countries, and will provide only partial and temporary relief to developed countries with major payments difficulties.

Although they were unable to reach any consensus, central bankers at the monthly meeting of the Bank of International Settlements in Basel discussed a number of pressing problems, including: the recycling of oil funds to consuming countries; central bank use of monetary gold reserves; and Italy's financial plight. Plans to aid Eurocurrency banks in the event of a financial crisis were also discussed again, but the bankers did not come up with any proposals. Italy's government crisis, and the premature departure of Italian Central Bank Governor Carli from the meeting, prevented the bankers from arriving at concrete plans to help Rome finance its payments deficit. The mood of the meeting was very negative.

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## PORTUGAL: SPINOLA'S PROBLEMS

President Spinola continues to stump the country in an effort to consolidate his leadership in the midst of labor disputes and difficulties in bringing about a cease-fire in the African territories.

### Situation in the Metropole and...

Spinola's latest series of speeches has been addressed to military units, to which he continues to stress the need for order, discipline, and vigilance in the face of unrest fomented by extremists. He appears to be more concerned about the threat from extremists on the left than on the right.

Spinola's personal appeal to the rank and file is designed to assure his control over the military establishment and the younger officers represented in the Armed Forces Movement, which was instrumental in ousting the Caetano regime. The Movement is still an unknown quantity, and some of its members may be sympathetic to the views expressed by leftists represented in the provisional government.

Meanwhile, the government is continuing to take a firm hand in settling labor disputes and discouraging anti-government demonstrations by leftist groups. Last week, the government settled a dispute over TV programming by taking over management of the station in order to end its control by leftists.

The only present work stoppage of major importance is a strike by postal and telecommunication workers, which began this week. The government issued a communique in which it promised a study of worker grievances, but criticized the strike and warned that Lisbon will be firm in order to assure a return to normalcy. The Portuguese Communist Party supported the government by also issuing a statement critical of the strike.

### ...in Africa

Lisbon's efforts to conclude early cease-fire agreements with the insurgents in Portuguese

Africa are seriously bogged down. A second round of talks with Portuguese Guinean insurgents, this time in Algiers, broke down on June 14 after only two days, and no date has been set for a new meeting. The negotiators apparently were unable to reach agreement on the political process to be implemented in the territory. The rebels want Lisbon to recognize the independent state they have proclaimed as well as their right to exercise political control over it. After fighting for more than a decade, they want no part of Spinola's plan to hold referendums giving the inhabitants of all the territories a choice of options.

A preliminary round of talks was held with insurgents of the Front for the Liberation of Mozambique in Lusaka, Zambia, on June 5-6. The results suggest that the negotiations scheduled to open next month with that group are likely to be in many respects a replay of those with the Guinean rebels. Unlike the rebels in Portuguese Guinea, those in Mozambique have virtually no political organization in the territory. Consequently, they will probably try to string out the negotiations until they have had time to prepare for a take-over.

So far, Lisbon has been unable to draw Angola's three insurgent organizations to the negotiating table, although it reached agreement this week with the smallest of the three groups to suspend hostilities. Like the other insurgent organizations, the Angolan groups were surprised by the Lisbon coup, which came at a time when they were squabbling within and among themselves. As a result, Lisbon has felt no pressure to meet their rhetorical demands for "independence first." The three groups are scheduled to meet later this month in Zambia to try to iron out their differences and form a united front against the Portuguese, but the effort may be thrown off track by the announcement that the smallest of the three has independently agreed to a cease-fire. Moreover, one faction of another of the groups has also announced it was ready to end the fighting. Nothing has been heard from the other faction of this group or the third rebel organization.

The new governors-general recently appointed for Angola and Mozambique arrived at their posts this week. Their installation ceremonies were low key, and there was little in their demeanor to suggest that they will be able to come to grips with the political uncertainties now prevailing in their territories. Little public enthusiasm was shown for the arrival of either man.

The development of local political organizations in the African territories has been erratic. Of the three, Mozambique appears to be furthest along, although little forward motion has been achieved even there. The only organization to make any impact thus far is a grouping of liberal white lawyers and journalists who had long been critics of the former regime's policies. Their money and access to the media gives them a distinct advantage over potential competitors. They support the Front for the Liberation of Mozambique and would make a powerful ally for the front in any future referendum in the territory. They have virtually no political support among the population, however, and any successful political movement will have to take into account the strong, and disparate, tribal interests throughout the territory.

## BELGIUM: A MORE STABLE GOVERNMENT

The Wallonian linguistic party's decision earlier this month to participate in Prime Minister Leo Tindemans' center-right government has given him a nine-seat majority in parliament. Tindemans now has the opportunity to advance legislation that might have been blocked by the Socialists, Belgium's second largest party. He also plans to develop greater regional autonomy, which will strengthen his position with the other two linguistic parties.

The entry of the Wallonian party—the first of the linguistic parties to participate in a Belgian government—gives the coalition, which has been accused of a Flemish bias, a better balance and therefore more stability. The acceptance of governmental responsibility may temper the Wallonian party's separatist demands. The party apparently has reached an understanding with the Wallonian wing of Tindemans' Christian Socialists, which fears that greater regional autonomy may eventually lead to the dissolution of Belgium as a unitary state.

Because of the sensitivity over the regional autonomy issue, Tindemans has called for provisional agreements on regionalization that can be implemented through a simple parliamentary majority rather than the two-thirds vote required to amend the constitution. His program calls for the establishment of regional councils for Brussels, Flanders, and Wallonia. The councils would advise the government on such matters as the allotment of national budget funds within their respective regions on the basis of population, area, and income-tax revenue.

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Tindemans also announced that Brussels would be limited to its present 19 communes. The extent of the Brussels region was an issue that led to the breakdown last April of the negotiations among the Social Christians, the Liberals, and the linguistic parties. The Flemish faction favored limiting the predominantly French-speaking capital to its 19 districts, while the French-speaking group wanted the boundaries fixed according to popular vote.

Tindemans has also declared that he intends to broaden the base of his government in order to attain the two-thirds majority necessary to enact more substantive reforms in regionalization. He also indicated that the coalition partners had agreed that none would resign unless an alternative majority arrangement were attainable.

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## USSR

### Views on Foreign Relations

The elections to the Supreme Soviet on June 16 climaxed over two weeks of ritual "campaign" speech-making by Soviet leaders. The election speeches provide some insights to the leadership's thinking on key foreign policy issues. There were differences in emphasis and occasional hints of disagreement, but the speakers, not surprisingly, hewed close to the same line on most topics.

Detente remains the focus of Soviet foreign policy. Soviet-American relations were consistently cast in a favorable light, with frequent praise for the accomplishments of the past two years and optimistic references to the coming summit. For example, Party Secretary Ponomarev, a recent visitor to the US, was notably positive in his remarks on detente. Many speakers said the goal of current Soviet diplomacy is to make detente "irreversible."

There were, nevertheless, numerous references to various obstacles to peace that East and West must surmount. Foreign Minister Gromyko revived Brezhnev's formulation of last fall in referring to "zig-zags" in relations because of the enemies of detente in the US. Marshal Grechko found appreciable positive changes in international relations but warned that the danger of war is still a "grim reality." Brezhnev, however, took a more positive view, saying that progress in relations with the US "can and must continue."

The General Secretary singled out the arms race as the foreign policy issue of the greatest importance and complexity. It also appears to be a matter of controversy in the Kremlin. Several speakers, including President Podgorny, spoke of the need to strengthen the national defense. Premier Kosygin, on the other hand, rejected the notion—attributed to "some" in the West—that "increased military expenditures can be accommodated amidst the policy of detente."

On the Middle East, the Soviet leaders credited the USSR for making possible the "practical steps" toward peace that have recently been

taken in the Middle East. But Gromyko, like other speakers, indicated his sensitivity over US initiatives in the area by ruling out "half-measures favored by Israel and its backers." Brezhnev promised Soviet support for additional steps toward a permanent settlement based on negotiation: at the Geneva Conference. He also seemed to hint that diplomatic relations between the USSR and Israel could be resumed.

European issues also received considerable, if somewhat muted, attention. Brezhnev noted with approval the pledges by Giscard d'Estaing and Schmidt to continue the policies of their predecessors, but said little else in support of these two new leaders. The various speeches indicate that Moscow still sets high store in the European security conference and its early windup at the summit level. There were no signs, however, that the Soviets are prepared to make concessions on the freer movements issue that has stalled the talks.

Moscow may, however, be contemplating progress at the mutual force reduction talks. Brezhnev said the Soviets would be willing to take limited measures toward arms limitation, especially in central Europe, adding "there is a possibility in the near future to achieve here the first concrete results."

Strong criticism of China as a consistent theme in the election speeches. Brezhnev echoed his colleagues in charging that Peking is in open collusion with right-wing imperialists in the West. He also made the standard references to Moscow's desire for normalization of relations and for friendship with the Chinese people.

The texts of many of the leaders' speeches appearing in local papers were rather heavily edited in the central press versions to achieve greater uniformity and apparently to ensure a sufficiently positive treatment of detente. Undiplomatic, hard-line rhetoric deemed acceptable for local audiences was often excised in the Moscow editions. For example, critical remarks about the US were culled from the speeches of Gromyko, Shelepin, Suslov, and Mazurov.

### The Pecking Order

The protocol sequence of the campaign speeches provides clues to the relative political standing of the regime's top leaders. In the matter of rankings, last is first, and pride of place again went to General Secretary Brezhnev, who delivered his address on June 14, just two days before the election. President Podgorny and Premier Kosygin also held onto their positions as number two and three, respectively.

Since the last Supreme Soviet election in 1970, Party Secretary Kirilenko has drawn closer to Suslov, also a party secretary, who holds the fourth position in the Soviet hierarchy. Party Secretary for Agriculture Kulakov delivered his speech a full week later than Minister of Agriculture Polyansky, pointing to the former's position as the top agriculture official.

Party Secretary for Cadres Kapitonov also moved up and could be in line for promotion to candidate Politburo member. At age 59, he is an experienced apparatchik and has held his present job since 1965.

Most intriguing is the sharp rise in the status of Politburo candidate member and party secretary Ponomarev, who delivered his speech ten days later than other candidate members and on the same day as Foreign Minister Gromyko, a full member of the Politburo. The pairing of the two underscores the inherent rivalry between their positions. In recent years, Ponomarev has assumed broader responsibilities in the foreign affairs field. These have taken him beyond his regular role of dealing with non-ruling Communist parties and brought him into contact with many non-Communist governments.

The campaign oratory produced a new honorific phrase in referring to Brezhnev—the "first candidate for deputy." Full texts of some of the speeches carried in local papers revealed that not all leaders were equally generous in their praise of the General Secretary, despite efforts in the central press summaries to smooth out these discrepancies. Variations in the treatment of Brezhnev's primacy point to continuing politicking within the leadership and the need for Brezhnev to heed these signals.

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## SOVIET MILITARY DEVELOPMENTS

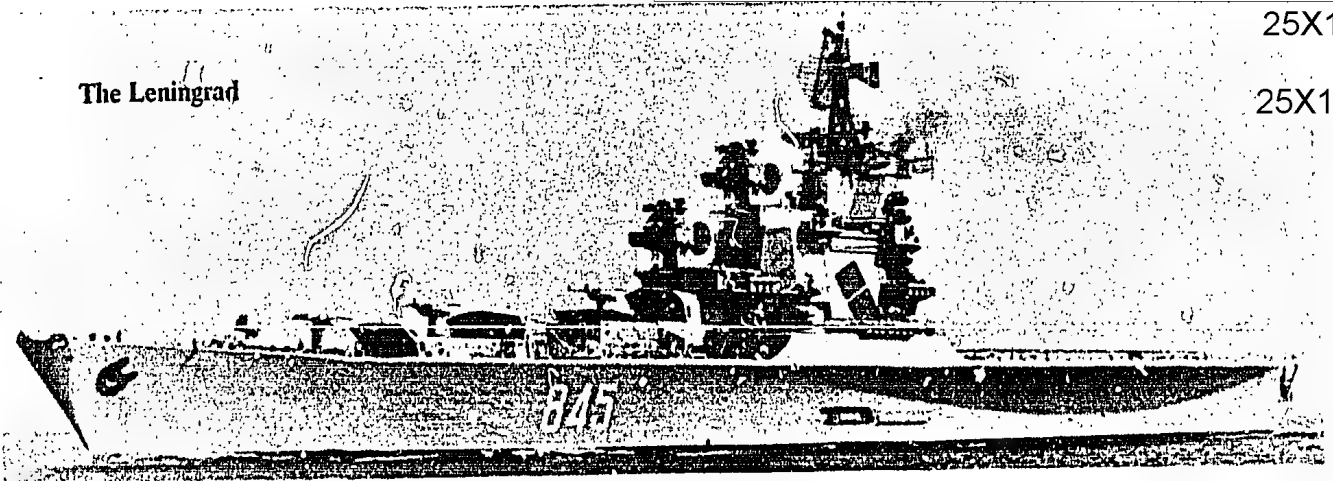
## Carriers in the Mediterranean

The Soviet's two helicopter carriers are now operating in the Mediterranean. The Leningrad entered from the Black Sea on June 16, while the other carrier, the Moskva, has been in the Mediterranean since late April.

This is the Leningrad's first cruise outside of home waters in over two years, and is only the second time the two Soviet carriers have operated in the Mediterranean at the same time. The previous occasion was during a world-wide Soviet naval exercise in 1970.

The Leningrad is now heading west in the Mediterranean after briefly joining the Moskva at an anchorage south of Greece. The two carriers and other ships of the Soviet Mediterranean Squadron will probably soon hold anti-submarine warfare exercises in the central Mediterranean. Afterwards, the Leningrad may proceed to Northern Fleet waters, as it did in 1970 and 1972.

The Leningrad is carrying two large canvas-covered objects, apparently helicopters, on its deck.



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## ITALY: RUMOR GETS A REPRIEVE

A serious political crisis was avoided on June 19 when Prime Minister Rumor's three-party coalition government compromised on the terms of the economic austerity program. The agreement on fiscal policy is not expected to be accompanied by a new sense of political cooperation, however, and the staying power of the Rumor government will remain tenuous.

After nine shaky days, the center-left government remains in place, not so much because of its own efforts but because President Leone has refused to accept Rumor's resignation, and because Italy was given permission to use its gold reserves as collateral for foreign loans. In addition, Italians have become more and more aware that there is no alternative to a center-left government, and that the economic situation is serious.

Leone's consultations with political leaders after Rumor submitted his resignation on June 10 reportedly convinced him that the quarrel was due as much to political rivalries as it was to differences over economic policies. Leone asked Rumor to make a fresh effort to overcome these differences and threatened to present the issues to parliament for public debate if he was not successful.

Rumor's negotiations were interrupted by regional elections June 16-17 in Sardinia that resulted in losses for his Christian Democrats and gains for left-wing parties. Final returns showed a 6-percent loss for the Christian Democrats and a 7-percent gain for the Communist Party compared to the last regional elections in 1969. The same pattern is apparent when the comparison is with the Sardinian returns in the 1972 parliamentary elections, although the percentages are not as dramatic.

When Rumor resumed negotiations on June 18, the Socialists—buoyed by the Sardinian electoral results—seemed less amenable to compromise. They introduced an additional problem by pressing for the institutionalization of consultations between the center-left government and the Communist Party on major issues. The Communists have participated in "cloakroom consui-



President Leone (I) and Premier Rumor

tations" in the past, but the Christian Democrats have always resisted giving them a formal role in the decision-making process.

In their efforts to secure a larger role for the Communists, the Socialists may have been motivated by a desire to associate the Communists with what will probably be an unpopular reaction to the austerity program. Because the Socialists and Communists compete for the same general portion of the electorate, the Socialists would prefer not to shoulder all the blame for the belt-tightening measures the government has agreed to implement to cool Italy's overheated economy.

The terms of the agreement have not been announced, but it is expected to contain stiff tax hikes and credit restraints to curb imports and inflation. The Socialists had been resisting credit restrictions because of concern that recession and unemployment would result, and initial press reports indicate that the Christian Democrats gave in on the credit squeeze issue.

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## AUSTRIA: THE PRESIDENTIAL STAKES

The Austrian presidential election on June 23 is likely to be a closer contest than local political observers had originally expected. Whatever the outcome, Austria's foreign and domestic policies will not be affected, because the functions of the post are largely ceremonial; the Austrian president has virtually no role in the policy-making process.

Rudolf Kirchschlaeger, the Socialist Party candidate, entered the campaign with several advantages. He is the foreign minister in Chancellor Kreisky's government and has gained considerable publicity as a result of his recent official visit to India and China, where he met with major political figures. The opposition People's Party, on the other hand, held off naming a candidate until the last minute. The party finally chose the mayor of Innsbruck, Alois Lugger, who is a political unknown outside his own area.

Despite Kirchschlaeger's built-in advantages, public opinion polls earlier this month indicated that he had only a slight lead of 42 to 38 percent, with the remaining voters undecided. Subsequent revelations that Kirchschlaeger was a member of a right-wing organization during the Nazi period and of the opposition People's Party for a brief period after the war have hurt his image with his Socialist colleagues and may cut into his strength even further. Kreisky, who had hand-picked Kirchschlaeger despite the reservations of many in the party's rank and file about the Foreign Minister's conservative and Catholic background, has nevertheless reiterated support for his nominee.

Kirchschlaeger is still expected to win. A narrow victory, however, would provide another psychological boost for the People's Party, which has been picking away at Socialist strength on the local and state level during the past year.

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## GRAIN OUTLOOK IN COMMUNIST EUROPE

Long-needed rains have improved grain prospects in Eastern Europe, whereas the outlook for

the Soviet crop remains uncertain. Even assuming average weather throughout the remainder of the crop season, however, the grain harvests in both areas will be well below the record 1973 levels. This could result in substantial grain imports in FY 1975.

### East European Drought Broken

Above-average rainfall and below-average temperatures in May and early June alleviated the drought in Eastern Europe, but the heavy rains have caused some flooding in most countries. Breadgrain output will probably not reach more than 34.5 million tons, 7 percent less than last year. The harvest of coarse grains also is likely to fall short of the near record 34.8 million tons set in 1973.

In the southern countries—Bulgaria, Romania, and Hungary—the rains brought most of the winter grains out of the long drought in good condition. They also aided germination and early development of spring-sown grains, especially corn. Because soil moisture generally remains below normal, however, a hot dry summer could reduce grain production even more.

In the northern countries—Czechoslovakia, East Germany, and Poland—subsoil moisture increased to almost normal by early June. In Poland, grains suffered from both winterkill and drought, however, and winterkill may also have been higher than average in East Germany.

### Poor Weather Threatens Yields in USSR

Above average winterkill and delays in spring sowing, together with the assumption of average growing conditions in the important June-July period, indicate a Soviet grain output this year of about 190 million tons. Although far below both the planned output of 206 million tons and the record 222.5 million tons of last year, a crop of this size would still exceed the pre-1973 high of 187 million tons.

The USSR normally relies on winter grains for about one third of its supply. In the fall of

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1973, the Soviets planted the largest area of winter grains since 1968. Temperature extremes and sparse snow cover damaged about one fourth of these fields, leaving a smaller acreage than the average harvested in 1966-71. Moreover, yields on the remaining area may be no more than average because of spotty germination last fall, temperature variations, and spring frosts.

Spring sowing got off to an early start, but cold, snow, and rain in mid-April stalled the campaign. Unusual cold in late May killed some of the newly seeded grain in the European RSFSR and the Ukraine. More important, when the last of the late grains is planted this week, the total area is likely to be about 5 million hectares less than the planned 130 million. On the basis of growing conditions so far, yields of spring grains will be below the average of the past ten years. Weather, however, has its greatest effect on spring grains in June and July.

#### Shortfalls Could Spur Imports

Eastern Europe's import requirements for FY 1975 are likely to be higher than the 8 million

tons estimated for FY 1974, and exports will be lower. Romania—usually a net exporter of grain—entered a precautionary request for US grain before rains improved harvest prospects. The northern countries may also increase grain imports because of the reduced output of rye and the possibility of a poor potato crop.

Soviet domestic requirements and export commitments are at least 6 million tons more than the projected crop. The USSR probably increased grain stocks—mostly wheat—by 15 to 25 million tons in 1973 following its record harvest. Nevertheless, wheat imports may be necessary to correct imbalances in domestic supplies since the quality of a large share of the wheat stocks may be below milling standards and the share of breadgrains in the 1974 acreage is smaller than usual. If world prices for wheat and feed grains were attractive, moreover, Moscow might buy to avoid using reserve stocks and to maintain flexibility in meeting requests for grain from Eastern Europe or Third World countries such as India.

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**MORE GRAFFITI**

A new round of poster criticism has appeared in China. In Peking, the Municipal Revolutionary Committee leadership has been assailed while attacks on provincial party leaders continue to mount. The upsurge in poster warfare was authorized by a central directive issued in late May. The order negates the restrictions on the placement and content of posters that had been promulgated at the beginning of the campaign. At the same time, however, Chinese officials have made it clear that party authorities in Peking retain the power to determine the political fate of leaders, regardless of poster criticism.

The posters pasted to the headquarters wall of the Peking Municipal Revolutionary Committee on the night of June 12 were almost certainly authored by elements on the political left. The placards made three main charges against the committee:

- Failure to implement vigorously the anti-Lin, anti-Confucius campaign.
- Failure to expose its faults and not allowing others to do so.
- Using an anti-leftist drive in 1970-71 to suppress people unjustly and eliminate representatives of the masses from the revolutionary committee.

Adding weight to the last charge, the posters were signed by persons who were named to the original revolutionary committee in 1967 but have since been removed.

The initial target of the attacks was almost certainly Wu Te, a member of the Politburo who also heads the revolutionary and party committees in Peking. Wu had recently weathered indirect attacks when the Cultural Group of the State Council, which he also heads, was criticized for allowing the writing and staging of several ideologically offensive plays. The two-pronged assault against Wu was quickly merged through posters that link the committee leaders with the most frequently criticized play, "Three Visits to Peach Mountain." Wu is not without his sup-

porters, however, and the Cultural Group was highly praised in the *People's Daily* of June 4 for fostering revolutionary songs.

Within a few days, the poster attacks broadened to include another target, Politburo member and Hunan provincial boss Hua Kuo-feng. Some of the posters, purportedly authored by a Hunan worker group that had come to Peking to present its case, attacked Hua by name. These posters were quickly removed. Others, which criticized the Hunan leadership in general terms, were allowed to remain. This is the first overt indication that Hua is under fire. The attacks, made in the name of former Cultural Revolution leftist groups in Hunan, strongly suggest that Hua is currently in the moderate camp.

The new poster ground rules are favorable to the left, but the revised regulations are being strictly and carefully enforced. The authors of the posters that attacked a central leader by name—and therefore violated central instructions—were apparently visited by security forces the next day. Moreover, it is obvious that poster attacks at this stage of the campaign do not indicate that their targets are in irreversible political trouble. More than one provincial leader, in the course of official escort duties for visiting foreigners, has casually pointed out posters attacking him. The Peking posters are in full view of foreigners and, in fact, reserved parking has been established across the street for the curious. Furthermore, putative "moderates" are not the only ones under attack. The authors of some of the Peking posters have themselves been attacked, while the political and military boss of Heilungkiang Province, a Cultural Revolution leftist, is also being criticized.

Most importantly, the power of final judgment with regard to purges has been retained by the central authorities. Chinese officials have emphasized that while anyone can put up posters, punitive action against cadres must be approved by Peking. This has the effect of significantly devaluing the political currency of the poster weapon.

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## SOUTH VIETNAM: FIGHTING SLACKENS

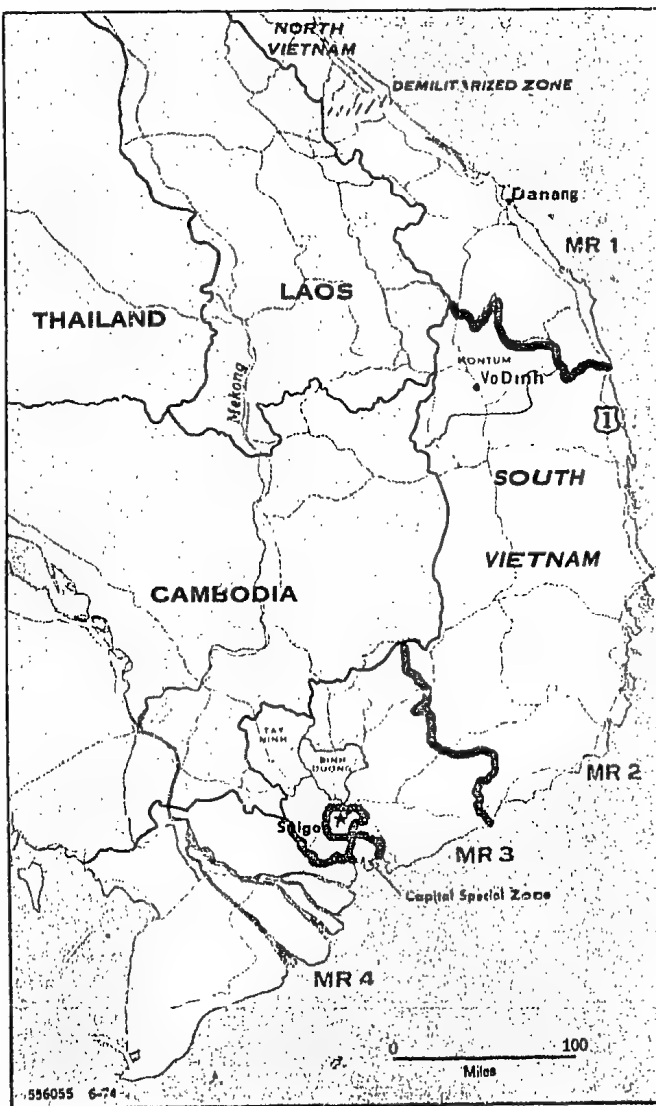
The level of military action in some sections of the country is down. Increasing rains are partly the reason, but some government operations are also being impeded by stiff resistance and supply problems. On other battlefronts, the Communists are holding back because of heavy casualties inflicted by government forces.

The most significant fighting is still occurring in the government operation north of Saigon in Binh Duong Province, where local commanders

now acknowledge that they will need more time to recapture outposts recently seized by the Communists. Some sharp fighting is also still occurring along the Cambodian border in the northern delta as Saigon's forces press their efforts to regain control over vast rice-growing areas there. In the central highlands, the South Vietnamese apparently have abandoned their retaliatory thrust toward Vo Dinh in Kontum Province.

Despite the slower tempo, there are indications that the Communists' current campaign is not yet over—particularly in the northernmost provinces where the weather is improving. Many North Vietnamese combat units there have been strengthened during the past year. The Communists may also soon move against several remaining government outposts deep in territory they hold in the highlands. In addition, there are signs that the Communists intend to increase military action in Tay Ninh and several other provinces, even though the combat capability of some of their units in these areas has declined.

The Communists are also likely to put more emphasis on smaller scale operations aimed at blocking sections of such key highways as National Route 1 for longer periods of time in order to disrupt the flow of military and commercial traffic between the provinces and Saigon. Such activity keeps the pressure on the government and costs the Communists little.



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## LAOS: NON-COMMUNIST STIRRINGS

The Communists are still out in front politically in the ten-week-old coalition government, but the non-Communist side is finally beginning to show some signs of life.

Aided by the skillful parliamentary maneuvering of Prime Minister Souvanna, non-Communist members of the coalition cabinet have

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Souphanouvong (l) embraces Souvanna upon return to Vientiane in April

succeeded in at least temporarily blocking passage of two important proposals that Pathet Lao leader Souphanouvong recently pushed through the Joint National Political Council, which he chairs. One proposal, a comprehensive 18-point national political program, sets forth domestic and foreign policy priorities and objectives for the new coalition. The other, an equally comprehensive bill spelling out "regulations" on democratic freedoms, lays the groundwork for a system of press censorship. Both proposals have been deferred to cabinet committees for further study.

In addition, non-Communist cabinet ministers managed to parry initial Pathet Lao efforts on behalf of Hanoi to get the new government to recognize the Viet Cong's Provisional Revolutionary Government. The question of recognition was reportedly scheduled for discussion by the cabinet last week, but was sidetracked by the non-Communists' delaying tactics. On still another front, non-Communist Defense Minister Sisouk na Champassak has turned back repeated attempts by his Pathet Lao deputy and by Communist Deputy Prime Minister Phoumi Vongvichit to bring Lao army activities under joint supervision.

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The non-Communists are also trying to organize a new, broadly based political party, "The National Union of Peace and Reconciliation." [redacted] the proposed party has the backing of conservative political and military leaders, demobilized veterans, a number of former National Assembly deputies, the rightist Sananikone clan, and Souvanna's neutralist party. In a related move, the non-Communists have decided to establish a "brain trust" led by Sisouk and neutralist Interior Minister Pheng Phongsavan to formulate domestic and foreign policy guidelines for the new party.

Despite these actions, the non-Communists will probably find it difficult over the long haul to hold their own with the Communists in political planning and organizational drive and discipline. [redacted]

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**CAMBODIA****CHANGING THE GUARD**

The latest round of political maneuvering in Phnom Penh resulted early this week in the formation of a new cabinet by Prime Minister Long Boret. This was the eighth change in cabinets since Sihanouk was ousted in March 1970. The new ministerial portfolios have been parceled out to eight members of Lon Nol's majority Socio-Republican Party, seven independents, and two senior military men. Sirik Matak's minority Republican Party, which held four posts in the outgoing cabinet, settled for increased representation on the Executive Council, the country's top policy-making body.

The exclusion of the Republicans from the cabinet is designed to placate the Socio-Republican - controlled National Assembly, whose interpellation of previous ministers was largely to blame for the dissolution of Long Boret's first cabinet. Pan Sothi, the Socio-Republican secretary general and the instigator of the anti-government activity in the assembly, has been brought into the new cabinet as first deputy prime minister and education minister, apparently in hopes that he will have less time to keep the legislature stirred up. Most of the other key ministers are Socio-Republican holdovers from the previous cabinet.

In presenting his new government's program to the assembly, Long Boret warned against the consequences of any further political squabbling. He also indicated that he may be less lenient toward student and teacher activists by announcing stricter measures to maintain public order. At the same time, however, he noted the government's intention to reopen its dialogue with the students. On the economic front, the Prime Minister outlined new economic measures to combat spiraling inflation in the capital.

**GOOD MILITARY NEWS**

Cambodian army units northwest of the capital made some progress this week when they secured a corridor between the Tonle Sap River and the government base at Lovek. River convoys immediately began evacuating thousands of

refugees to the provincial capital of Kompong Chhnang farther north.

Communist plans for renewed attacks on Lovek have apparently been disrupted by a successful government push up Route 5 southeast of Lovek. Late in the week, lead elements of a government task force were within four miles of Lovek and had retaken the town of Kompong Luong, lost to the Communists in April. The government troops claim to have killed over 300 insurgents in heavy fighting along the highway. 25X1

**THAILAND: LABOR ON THE MOVE**

Thailand's labor movement, long the stepchild of Thai politics, may have come of age last week. In a rare show of strength, workers' associations from around the country banded together to turn what had been a minor labor dispute by textile workers into a major political problem for the two-week-old Sanya government. The change was made possible by the new psychological climate created by the Bangkok press, which gave prominent and sometimes sensational coverage to the event. Before it was all over, the workers had attracted to their cause student radicals who, for a time, threatened to turn the textile strike into a violent, anti-government protest.

The government was slow to recognize either the potential for trouble or the growing support for the strikers among labor associations throughout the country. At the climax of the negotiations, these associations threatened a general strike. The government offered major concessions as the strikers' ranks were being augmented by technical school students known more for their prowess in street battles than for their trade skills.

Labor leaders can point with satisfaction to the results of their first serious endeavor at organized mass action. The strikers won an increase in the minimum wage for all Bangkok-based factory workers as well as improvements in job security and severance pay. Unofficially, the workers were told by the government that another increase in the minimum wage, for workers throughout the country, would probably be enacted next year.



Workers demonstrating in Bangkok

Besides these tangible gains, local labor leaders also gained valuable organizational experience that should strengthen their hands the next time they decide to take on the government.

The labor movement still has a long way to go, however, before it can be considered a key element in the Thai political equation. A law prohibiting the formation of labor unions is still on the books, although the new constitution is expected to guarantee workers the right to organize. Moreover, elements of the conservative ruling elite—principally the monarchy and the military—remain wary of a strong labor movement, fearing it may be infiltrated by the Communists. The fiery rhetoric of student radicals and several

labor leaders during the height of the strike last last week will surely heighten these fears. Furthermore, labor still lacks both a national spokesman and the formal organization necessary to mobilize the workers and keep their interests before the government.

Nevertheless, representatives of the striking textile workers did display a keen sense of just how far they would push the government. Indeed, in many ways their handling of the strike paralleled the tactics used by the Thai student movement, which thrived by confronting the government and then backing off when it had wrung significant concessions. The workers' seem to be headed in the same direction.

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**COLOMBIA: NEW GUERRILLA WOES**

The long-standing insurgency problem in rural Colombia appears to be entering a new phase. Pro-Moscow guerrillas of the Revolutionary Armed Forces of Colombia have carried out several sizable operations in recent weeks. The organization had previously been restrained by the orthodox—and legal—Colombian Communist Party, to which it is closely tied. Government counterinsurgency forces, which have enjoyed some success in containing the pro-Havana National Liberation Army over the past 18 months, are reportedly impressed by the pro-Moscow group's level of training and discipline.

Although the National Liberation Army has never had more than about 200 guerrillas in the field, it has remained relatively secure in the country's mountain ranges. The group's large urban support network, with cells in Bogota and other cities, has proved its greatest weakness. Government forces have been able to neutralize the rural insurgents by interrupting their urban sources of supply.

The newly active Revolutionary Armed Forces of Colombia, on the other hand, consists largely of peasants who assemble to stage a guerrilla operation and then disperse again, thus remaining almost totally independent of vulnerable support elements in the cities. The security services concede privately that the organization poses a potentially greater insurgency threat than the National Liberation Army has ever done. In addition to the group's less vulnerable organization, it is also numerically larger, better equipped and trained, and better led. Moreover, its traditional association with the Communist Party may prove to be an unexpected source of strength. The leftist coalition dominated by the Communists received 3 percent of the vote in the general election last April, and it will probably inherit additional followers from the collapsing National Popular Alliance, which received 10 percent of the vote. The Liberal Party government to be inaugurated in August is unlikely to institute curbs on any political party, although it will be no less anti-guerrilla than the incumbent Conservative government.

Whether the pro-Moscow guerrillas realize, or even approach, their potential will depend in part on the general political atmosphere. With the end of the National Front coalition of Liberals and Conservatives, the country's 16-year tradition of political tranquility may be hard to maintain. The beneficiaries of renewed competition between the two major parties will include the minor parties, and among them are the Communists and their semi-official action arm, the Revolutionary Armed Forces of Colombia.

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**PANAMA-US: CANAL NEGOTIATIONS**

The Torrijos government, eager to start negotiating for a new canal treaty, is trying to smooth the way for the substantive talks. Foreign Minister Tack, who has an important voice on the canal issue, recently set forth his government's current moderate line in an interview with a Brazilian newspaper. Tack pointed to the declaration of eight principles that he and Secretary Kissinger had signed in February as the base on which the negotiators for the two sides are now ready to build. The minister maintained that he was not overly concerned about opposition within the US Congress to eventual transfer of control of the canal to Panama; he was sure the justness of Panama's case would overcome this obstacle.

General Torrijos may have several reasons for wanting to get the negotiations moving now. He is at a peak of popularity, and has even succeeded in persuading most of the holdouts in the business community to support his stand on the canal issue. He may also hope to head off the type of protest recently carried in the Panamanian press, in which a group of nationalistic lawyers urged him not to give an inch in the negotiations.

Whether Tack is as unconcerned as he said, Torrijos clearly is worried about possible

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opposition in the US to a new treaty. He has enlisted Panamanian management and labor groups in a public relations campaign to present Panama's case to the US public and Congress, and he would like the negotiations to move ahead before US opponents of a treaty have time to launch a counter-campaign.

The Panamanian leader may be willing to make some gestures to ease the road to negotiations, but there are no indications that he will be any less adamant on his basic demands than he has been in the past. Currently, Panamanian delegates to international meetings such as the conference of the Universal Postal Union are pushing their country's claim to sovereignty over the canal despite US urging that these matters be kept within the context of the bilateral negotiations. Torrijos is convinced that it is essential to continue to press the US because Washington might take a conciliatory policy as weakness.

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## ARGENTINA: PERON'S TROUBLES

Peron's program to put the lid on inflation is showing signs of strain as the agreement among labor, management, and government to hold down wages and prices begins to come unstuck. In the midst of these economic difficulties, Peron is also faced with a new threat from the terrorists.

### Economic Pact Comes Unglued

The President seems determined to patch up the cracks in his year-old "social pact"—the cornerstone of current economic policy—but further deterioration seems inevitable as efforts to keep labor demands in line falter, profits and investment diminish, and fiscal irresponsibility pushes up the money supply and spurs consumption beyond current production. The strains on the social pact, which had reduced inflation to some 10 percent since the Peronists' return, have resulted in wage increases of around 20 percent and price increases averaging around 6 percent—

all ahead of schedule. Meanwhile, Peron has postponed a showdown with labor by granting workers a one-month pay bonus effective in July.

Peron's dramatic threat to resign on June 12 in the face of growing economic difficulties, and his quick retraction on the same day before a massive demonstration by the Peronist faithful, appeared to be a well-orchestrated maneuver to rally popular endorsement for his policies. Peron's speech from the balcony of government house, in which he expressed his pleasure at the large turnout and thanked the crowds for the chance to hear the "voice of the people," was in the best Peron tradition—it was the technique used during his earlier days in power to drum up enthusiasm and acceptance for his programs.

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The scenario that unfolded, particularly the resignation of the entire cabinet and Peron's expeditious reaffirmation of confidence in his ministers, also bore signs of being stage-managed to convey a show of strength, possibly to obscure the government's floundering performance and its paucity of ideas on ways to deal with the problem. Peron reiterated his faith in the general guidelines set down by his economic team, but he may be putting pressure on them to devise some quick adjustments. He would probably not sack the officials responsible for directing the economy except as a last resort.

In a meeting with union officials last week, Peron agreed to consider a pay bonus—granted two days later—but demonstrated that he had no specific remedies for the workers' grievances over what they see as a disequilibrium in the social pact's regulation of wages and prices. Instead, Peron chose to lambast the press for magnifying the "small mistakes of government officials" and trying to undermine his policies. Earlier, the President had lashed out at businessmen, the "oligarchy," and other unspecified "enemies" in what appeared to be a reversion to tactics he employed more than two decades ago. The image he projected was one of petulance and flailing about in search of a handy scapegoat. As economic difficulties multiply, Peron may find himself under increasing pressure to deflect the blame for administration failures.

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The government has already warned businessmen that heavy fines or imprisonment awaits them unless they step up production and stop hoarding goods. For their part, the businessmen—already cutting investment and inventories to minimize losses—have complained bitterly that artificially low prices are driving them to bankruptcy while wage controls go unenforced.

Much of the reason for the disintegration of the social pact can be attributed to the heightened turmoil and dissension within the Peronist-controlled labor movement. Old-line leaders in the union bureaucracy are losing their grip over younger workers who are increasingly dissatisfied because their economic and political demands are not being met. As a result, many workers have resorted to open defiance by staging wildcat strikes and occupying plants. Moreover, the isolation of the national labor leadership from its rank and file has made the labor force more receptive to proselytizing by opposition left-wing activists. The growing violence and gangsterism within the labor sector is ample testimony to this danger.

The inherent threat, of course, is that loss of control in the labor movement will force further deterioration in profits, investment, and eventually output. The combination of eroding discipline among his key working-class political base and falling real incomes could prove to be Peron's biggest headache.

If the President moves to appease labor with new wage hikes, business will be further pinched and productive capacity will suffer new dislocations. This would lead to more shortages and to greater consumer discontent. The vicious cycle would encourage additional economic disruption and political unrest. So far, Peron has done little more than buy time. Barring some dramatic turnabout in economic policy, the respite is likely to be a brief one.

#### Guerrillas Pose New Threat

Meanwhile, following four years of major successes in urban subversion, the Marxist People's Revolutionary Army has recently announced plans to form rural guerrilla fronts. The terrorist leaders apparently intend to concentrate

both on increasing activities within the country and on strengthening ties with similar groups in neighboring countries.

According to a communique signed by guerrilla leader Roberto Santucho, the development of an operating capability in the countryside will enable his organization to maintain closer contact with subversive groups in neighboring countries and "fan the flames of armed socialist revolution across South America." The communique stated that part of the funds obtained in the ransom of Exxon executive Victor Samuelson had been distributed to these groups.

The Argentine Marxist group announced earlier this year that it was establishing a coordinating junta with other Marxist organizations in Chile, Bolivia, and Uruguay, but there has been little evidence until recently of increased activity. A few weeks ago, however, when police discovered a large weapons cache in Buenos Aires, there was circumstantial evidence suggesting that the arms were to be shipped to the Tupamaros in Uruguay.

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The simultaneous development of urban and rural guerrilla fronts may also represent a propaganda effort to point up the embarrassing failures of recent security operations. Last month, hundreds of police and soldiers raided a rural guerrilla base in northwest Argentina. The widely publicized operation came to an inglorious end when the guerrillas temporarily seized the town from which the security forces had operated.

Despite the new emphasis on rural guerrilla fronts, it is unlikely that the Marxist organization will shift its main focus away from the cities. Rural areas could serve as a temporary haven, however, should the government's counter-terrorist program eventually prove more successful. Rural insurgencies in other Latin countries have generally failed for lack of local support.

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## NORTH YEMEN: MILITARY TAKE-OVER

Colonel Ibrahim Hamdi, the armed forces deputy commander, led a military take-over of the government last week. Hamdi, who will exercise supreme power under a "transitional" constitution, is a moderate nationalist who favors a strong central government. On June 19, the ruling Command Council—headed by Hamdi—named former prime minister Muhsin al-Ayni to form a new cabinet and to implement modernizing changes.

In selecting al-Ayni, the Command Council risks loss of the subsidy from Saudi Arabia that bridges the gap between Sana's income and its expenditures. King Faysal seems well disposed toward Hamdi, but regards al-Ayni as a dangerous radical who favors the leftist regimes in Iraq and South Yemen.

Hamdi's assumption of power came on the heels of a clash between President Iryani and conservative tribal leaders over the government's handling of a recently uncovered Baathist coup plot backed by Iraq. The tribal sheikhs, led by Abdullah al-Ahmar, the head of the Consultative Assembly, accused Iryani of not taking sufficiently tough measures against Baghdad or the local plotters. In the subsequent maneuvering,



Hamdi

Iryani resigned—a favorite ploy that he apparently used once too often—and tribal forces threatened to occupy the capital. Hamdi, who has little tolerance for traditional tribal influence, used his troops to face down the gathering tribal irregulars. With army pressure mounting, al-Ahmar stepped down from his legislative post, and the tribally dominated assembly was subsequently dissolved.

On June 15, al-Ahmar and many other sheikhs pledged their support to Hamdi and the Command Council, ending the danger that army-tribal fighting might break out. The tribal leaders fell into line after Saudi Arabia, which has long subsidized the tribes, announced its support for the new North Yemeni military leadership.

Al-Ayni's appointment as Prime Minister came after considerable maneuvering by him and his allies following his return from his ambassadorial post in London four days after the military take-over. Colonel Hamdi probably saw the al-Ayni appointment as necessary to win support from the moderate left in North Yemen, with whom al-Ayni is well connected. In addition, Hamdi served as deputy prime minister in a cabinet headed by al-Ayni in 1971-72, although little is known of their relationship. Al-Ayni shares the view of Hamdi, and much of the military, that administrative and financial reforms are essential, and that the central government should be strengthened at the expense of local tribal sheikhs. Abdullah al-Ahmar and other tribal leaders apparently were consulted and gave grudging consent to the appointment; Hamdi and the Command Council reportedly promised to monitor al-Ayni closely.

So long as Hamdi and his supporters in the Command Council hold sway, the Saudis will probably take no action to counteract al-Ayni's appointment other than to observe closely his choices for the cabinet and his behavior in office. The Saudis, as recently as January 1974, used their considerable influence in Sana to veto al-Ayni's appointment as prime minister.

The Marxist regime in South Yemen, which has long been at odds with the North Yemenis,

has thus far taken a low-key approach to the new situation in Sana, characterizing it as an internal matter. Aden has not yet been heard from on the al-Ayni appointment. For his part, Colonel Hamdi, although concerned about the threat from the south, has made no hostile gesture toward Aden. A spokesman for the Command Council has, in fact, indicated that the new military rulers will continue unity talks between the two Yemens, which have been taking place in a desultory manner for some time. [redacted]

## CYPRUS: MAKARIOS' DIFFICULTIES

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President Makarios' continuing effort to secure greater control over the Greek-officered Cypriot National Guard is encountering strong resistance from Athens, which uses the Guard as an instrument of influence in Cyprus. The controversy is intensifying amid an upsurge of anti-government violence by Eoka-B, the outlawed terrorist organization that favors the union of Cyprus with Greece.

Makarios believes Athens is encouraging collusion between the Guard and Eoka-B in an attempt to bring greater pressure on him. He is also angered by the involvement of guardsmen in a series of incidents directed against his regime. In pressing his campaign for control of the Guard, Makarios demanded in early June that the selection of Greek Cypriot officer trainees be transferred from the National Guard general staff to his government. The legal authority to make such appointments is vested in the government, but in fact they have been made by the general staff. In a follow-up letter on June 15 to the Guard commander, a Greek general, Makarios requested that 57 cadets now undergoing training be removed from the program by June 20. Makarios charged they had been specifically chosen for their hostility to him.

The Greek government has rejected Makarios' demand concerning future cadet appointments and is likely to refuse to sanction the release of the cadets already in training. Athens told Makarios last week that it had instructed Greek guard officers to cease any involvement in Cypriot politics, but that it could not completely control their activities. Athens also demanded

that Makarios disband all "illegal organizations," meaning especially his personal paramilitary force, and intervene to stop the current campaign against the Greek government in the pro-Makarios Cypriot press. 25X1 25X1

[redacted] The President may bring the dispute over the 57 cadets to a head by refusing to pay their salaries when they complete training and are commissioned.

Makarios hopes eventually to reduce the term of service for national guardsmen from the present two years to 12 or 14 months. That would cut the size of the 12,000-man force in half and secure at least a proportionate decrease in the number of Greek officers needed to command it. His ultimate goal is to transform the Guard into a full-fledged army manned and led exclusively by Greek Cypriots. 25X1 25X1

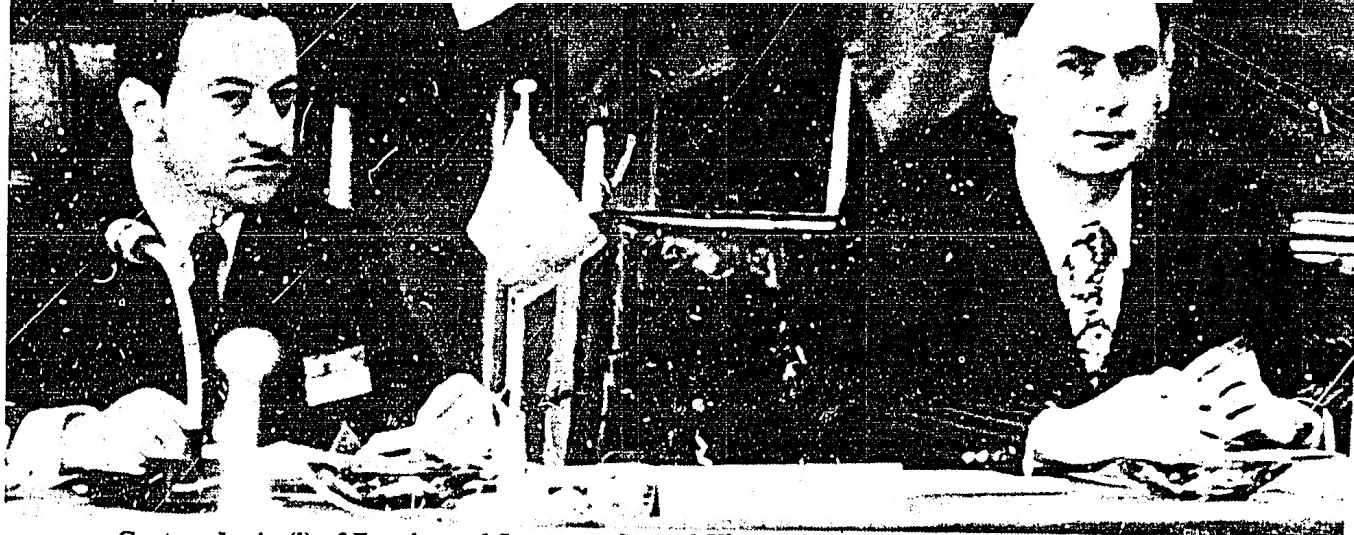
Meanwhile, the new wave of Eoka-B violence, which began following the recent arrest of a number of its supporters, was capped this week by the assassination of a pro-Makarios official of the right-wing farmers' union. [redacted]

The terrorist offensive is probably designed in part to put pressure on Makarios to cease his campaign to control the Guard. The terrorist leaders want the Guard to remain under mainland Greek control. While the scale of the offensive suggests that Eoka-B may have recovered some of the strength it lost as a result of the death last January of its founder, General George Grivas, the Makarios government probably has the capability to deal with it.

On the intercommunal front, the six-year-old talks between the Greek and Turkish Cypriot communities, which aim at devising a new system of government for the island, were resumed on June 11. Positions have hardened, however, and prospects for a settlement remain poor. [redacted]

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Gustave Jarrin (l) of Ecuador and Secretary General Khene of Algeria preside over OPEC meeting

### OPEC: POSTPONING DECISIONS

At their conference in Quito this week, the OPEC oil ministers agreed to continue the freeze on posted crude oil prices for another three months and to allow individual OPEC members, as of July 1, to increase royalties by 2 percent or otherwise raise the government take by an equivalent amount.

Both actions were taken following a concerted effort by Saudi Arabia to hold down oil prices. At least five other OPEC members—Algeria, Nigeria, Libya, Iran, and Kuwait—argued for an increase in posted prices to offset world inflation. The recognition of Saudi market power probably led the OPEC ministers to drop their demands for posted price increases. They settled for a statement calling on the industrialized countries to take strong measures to control inflation. The conferees decided to review the price question again at their next meeting in Vienna on September 12, implying that if inflation were not better controlled, prices would be increased.

Saudi Arabia dissociated itself from the decision to raise royalties. The Saudis announced that they would not move to increase their revenues, pending the outcome of negotiations with the owners of ARAMCO in July.

The effect of the royalty charges on other OPEC members' prices will not be determined until each one announces how the increase will be implemented. If they decide to use light Arabian

crude as the benchmark and apply a 2-percent increase only to royalty charges, an increase of 11 cents per barrel in the price of oil to consumers would result. The oil bills for the US and Japan would each increase by about \$50 million and Western Europe's oil bill would rise by nearly \$150 million during the third quarter of 1974.

Currently, there is an excess of oil on the world market at present prices. Oil stocks in the US, Western Europe, and Japan are reaching—and in some cases exceeding—desired levels. With consumers still resisting high prices, several independent European refineries have had to cut back output because they cannot sell their products at a profit.

The oil surplus will be made worse if Saudi Arabia increases production and goes ahead with its plan to auction 2 million barrels per day of oil this summer. If this happens, the other OPEC countries will be forced either to cut back production or to accept lower prices.

In other actions, the OPEC ministers decided to postpone for another three months any decision on an OPEC development fund for oil-importing developing countries. They also rejected applications for full membership from Trinidad and Tobago and the Congo, granting them observer status only.

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